



Jason Dubinsky  
Divisional Vice President and Treasurer

ELECTRONIC SUBMISSION

February 22, 2011

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

**Re: Docket No. R-1404 (Debit Card Interchange Fees and Routing)**  
**RIN No. 7100 AD63**

Dear Ms. Johnson,

Walgreen Co. ("Walgreens") is pleased to submit comments on the above captioned proposed rule. We appreciate the thorough manner in which Board and its staff have approached this important rulemaking. We believe all stakeholders have been provided ample opportunity to be heard and that the process should continue as scheduled. We write today to provide our position on those key issues that are of utmost importance to Walgreens: the interchange fee standards, network routing and exclusivity standards, and the statutorily mandated timeline.

Walgreens operates over 7,600 retail drugstores in all 50 states, the District of Columbia and Puerto Rico. Each day, Walgreens and our subsidiaries provide nearly 6 million customers the most convenient, multichannel access to consumer goods and services and trusted, cost-effective pharmacy, health and wellness services and advice in communities across America. Walgreens accepts debit cards in all of our retail locations, Take Care health centers, and on [walgreens.com](http://walgreens.com). We route debit transactions to Visa, MasterCard, and 14 separate PIN debit networks.

#### **Interchange Fee Standards**

Walgreens supports Alternative 1 (safe harbor and cap) as the most effective way to regulate debit interchange fees. Whether the Board ultimately decides to regulate debit interchange using the methods proposed in Alternative 1 or Alternative 2 (cap only), Walgreens believes that the interchange cap must be set closer to the issuers' mean per-transaction authorization, clearance, and settlement (ACS) costs. Utilizing the mean to set the standard most closely follows the statutory requirement that debit interchange be set at levels reasonable and proportional to issuers' costs. Further, if the mean is used to set the standard, then those banks whose costs are significantly above the industry average will be incentivized to remedy inefficiencies in their operations in order to drive out unnecessary excess cost in order to compete for business.

#### **Network Routing Standards**

The network exclusivity and routing provisions are a very important component of the proposed regulations to Walgreens. The reintroduction of competition among debit card networks will allow Walgreens the ability to steer debit transactions between networks. While there still remain anti-competitive network rules restraining merchants ability to steer (particularly credit card transactions),

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the Board's proposed rules are an important and needed solution in part to this problem. Competition between networks for transaction volume may very well prompt networks to differentiate through the development of new programs and services that will be attractive to Walgreens, issuers, and consumers alike. Differentiating factors such as these will receive all due consideration from Walgreens in making our routing decisions; the assertion by small banks that they will be harmed by a merchant's ability to route transactions toward the least cost network is therefore untrue. Walgreens welcomes the benefits of differentiation that we believe will be spurred by increased competition among debit networks.

It is because Walgreens anticipates benefits to merchants and consumers resulting from increased competition between debit networks that we must support routing Alternative B (no less than two unaffiliated networks for each method of authorization). Of the two routing proposals, we believe that Alternative B will foster the most competition in the debit industry and yield the most benefit. However, we recognize that it may take the industry some time to build the additional technical capabilities necessary to carry out the new mandates to allow for two signature debit routing options on one card. Therefore, we advocate for Alternative A (two unaffiliated networks without consideration as to authorization method) as an interim solution until Alternative B can be implemented. Three months after the Board issues Final Rules, all debit cards – with the exception of those linked to tax-advantaged healthcare accounts that can only be routed as signature debit (i.e. health savings or flexible spending) – must be compliant with Alternative A. We support excluding debit cards linked to tax-advantaged healthcare accounts from this mandate because the capability to authorize these transactions over PIN debit networks does not currently exist. By April 2012, Alternative B must be implemented and two PIN and two signature networks must be available for authorization for all debit cards (including those linked to tax-advantaged health care accounts). While Walgreens has some systems-related work to do to be able to take advantage of Alternative B, we are confident in our ability to do so by April 2012.

### Timeline

We can find no reason to delay implementation of the debit card rules. Given the Board's thoroughness in allowing all concerned parties the opportunity to participate in the rulemaking process, we do not think any new information will be learned from further study. A delay will only allow the issuing banks and networks the ability to continue to collect unfair, unreasonable and disproportionate interchange fees. We strongly feel the process should continue as mandated by statute and look forward to the Board's final regulations taking effect on July 21, 2011.

Again, I'd like to thank the Board for its thoughtful work in writing these proposed debit card regulations. If I can be of any further assistance, please do not hesitate to contact me at 1-847-315-3323 or via email at [jason.dubinsky@walgreens.com](mailto:jason.dubinsky@walgreens.com).

Sincerely,

Jason Dubinsky